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SUBJECT: PROSPECTS FOR THE OPIC-SUPPORTED RENEWABLE ENERGY
INVESTMENT FUND IN TUNISIA

REF: STATE 95170

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Summary

11. (SBU) Although Tunisia's current energy picture hardly includes renewables, growing unmet domestic demand and an agreement signed with Italy to provide power via an undersea cable present opportunities in this sector. A handful of Tunisian government agencies deal with renewables, among them the Societe Tunisienne de l'Electricite et du Gaz (STEG), the utility holding a monopoly on management of the power grid. Unfortunately, STEG has been reluctant to allow private power generation in the past, although investors are optimistic STEG is loosening and renewables are in Tunisia's future. Although some Government of Tunisia (GOT) public financing is available for renewable energy projects, the need for capital for mega-projects is present. American companies face competition from European counterparts, who come to the table with preferential financing offers and government-backed loans. Overall, Tunisia is a viable market for renewables in the medium- to long-term. End summary.

The Renewable Energy Sector in Tunisia

12. (SBU) Currently, less than one percent of Tunisia's energy comes from renewable sources. However, growing domestic demand (upwards of five percent per year, according to an industry leader), coupled with a signed agreement to provide energy to the EU via an undersea cable to Italy (which is yet to be built), make the Tunisian market one to watch. The GOT is committed to investing in renewable energy in part to wane its dependency on Algerian and Libyan gas and oil, but also for environmental reasons. The sharp increase in fossil fuel prices in 2008 pushed the GOT to enact energy-saving measures and invest in renewables. Tunisia has suffered slight energy deficits since 1994, but is looking to renewables to supply some of its needs for housing and small industry. According to the GOT, Tunisia will have 215MW of new wind power by 2011 and raise national energy consumption from renewables to 13 percent of total production by 2011.

Government Entities Involved in Renewables

¶3. (SBU) Renewable energy in Tunisia is managed by three government entities: the General Directorate of Energy (DGE), which belongs to the Ministry of Industry, Energy, and Small and Medium Enterprises (MOIE); the National Agency for Energy Conservation (ANME), also under the MOIE and known also as the National Agency for Renewable Energy; and the Syndicate of Renewable Energy (a chamber group). Another important player is STEG, the state-owned utility, as they have monopoly control over the power grid in Tunisia. STEG, historically, has been reticent to allow private power generation and remains an obstacle in fully liberalizing the sector.

Opportunities on the Horizon

¶4. (SBU) A 2008 agreement between Terna, the Italian utility company, and STEG calls for the construction of a 120MW independent power production plant, called ElMed, which will supply both Europe (800MW) and the domestic market (400MW). The energy to Europe will be supplied via an undersea cable, which is estimated by industry experts to be operative no earlier than 2013. The tender for the power plant will likely be announced by the end of 2009 (the tender for the cable has not been announced.) According to the MOIE, the plant's energy source (coal, natural gas or renewables) will be decided by the market. However, in a March 2009 statement, the MOIE said 200MW of capacity would be reserved for renewable sources. Another large project, called Desertec (a trans-Saharan solar energy network), though still in the planning stages, could also offer opportunities for solar energy providers.

Foreign Investment in Renewable Energy

¶5. (SBU) A number of U.S. companies are interested in investing in renewable energy in Tunisia, both in wind and solar power. However, for the most part, they are doing so to position themselves for the future market created by the STEG-Terna agreement. At least one company reports there are still significant challenges in this sector, posed by STEG in particular, whose leadership has been unfriendly to foreign investors. The legal framework for renewables is not optimal as it gives some leeway for private power to invest but does not spell out the terms of linkage to the network operated by STEG. Investors are optimistic, however, that leadership at STEG will change and thus make the investment climate more favorable.

Is There a Need for Capital in the Tunisian Market?

¶6. (SBU) The GOT is willing to give financial support in the form of grants and loans to various energy conservation projects, but according to experts, they are not able to provide the needed capital for mega-projects. Currently, the only public funds available for energy conservation, which includes renewables, are the National Fund for Energy Conservation and the Fund for Innovation and Development of Renewable Energy. Both give grants and loans to renewable energy projects with capital financed from the International Monetary Fund and the World Bank. The strongest competition facing U.S. firms in the renewable energy sector comes from Spain (wind power) and Germany (solar power). Both countries are able to provide EU or national government-backed grants to their companies and provide favorable financing, which makes them attractive partners for the GOT.

The Bottom Line

¶7. (SBU) Comment: Tunisia's market is very promising in the

medium- to long-term. Demand increases both domestically and abroad, coupled with the opening of the legal framework for private power generation in 2008, have created some room for independent power plants and private investment of large industrial groups to meet this energy need. The ElMed project could open up some opportunities for renewables when the undersea cable is built, especially if the tender for the power plant goes to a company that could build a hybrid plant. Some challenges remain, however. The legal framework is not perfect and STEG remains reluctant to allowing operation of private power. Investors are optimistic, however, that renewable energy is in Tunisia's future. End comment.
GRAY